

REGIONAL TAX COORDINATION AND COOPERATION: SOME THOUGHTS

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Why compete?

- Because some business activities and/or income are mobile
 - A higher effective tax rate drives away investment – and reduces employment
 - A higher statutory rate encourages profit shifting

Why tax mobile business anyway?

- Is the *effective incidence* of the tax on non-residents?
 - If not, then better to tax domestic residents directly
 - Optimistic to try to tax non-residents?
- Why is there no competition in VAT rates?
 - Because tax base is not very mobile
 - Tax profit in place of sale?

Is only *some* competition “harmful”?

- Tendency to consider competition in rates as virtuous
- But *all* forms of competition can harm other countries
- Observe competition in rates, and all aspects of bases
 - Incentives for investment and R&D, generosity of interest deductibility, thin capitalization rules, patent boxes, CFC rules, etc

Can regional cooperation work?

- Only for business investment that need to be located within region
- What about profit shifting outside the region?
- Are *all* aspects of tax within agreement?
 - Does that amounts to a single harmonized tax?
 - What is the minimum agreement that would be useful?